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THE
INTERNATIONAL
NICKEL
COMPANY
OF
CANADA,
LIMITED

1975
ANNUAL REPORT

Annual Meeting

The Company’s Annual Meeting will be held in Toronto on April 21, 1976.

La traduction en français du texte de ce rapport sera fournie sur demande.



The International Nickel Company of Canada, Limited 1975 Annual Report

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The International Nickel Company of Canada, Limited
and subsidiaries

Results in brief (in thousands except
where noted by asterisk)

	1975	1974
Net sales	\$1,694,768	\$1,684,608
Net earnings (1974 restated) Per share*	\$ 186,889 \$2.51	\$ 298,588 \$4.01
Dividends paid Per share*	\$ 119,284 \$1.60	\$ 119,267 \$1.60
Income and mining taxes	\$ 135,208	\$ 248,431
Capital expenditures	\$ 332,664	\$ 149,242
Ore mined (short tons)	21,200	22,000
Nickel deliveries (pounds)	351,120	549,070
Copper deliveries (pounds)	334,550	367,190
Platinum-group metals and gold deliveries (troy ounces)	301	317
Employees* — Metals business	37,755	32,459
— ESB Incorporated	15,760	16,503
Shareholders*	84,369	86,795

Dollar figures in this Report are expressed in United States
currency, unless otherwise stated.

Message to shareholders

The worldwide recession, a continuing high level of inflation and one of the sharpest declines in metals deliveries in the history of the nickel industry affected our earnings adversely in 1975. Nevertheless, we believe that Inco has done well in meeting the challenges of a difficult period, has placed itself in a strong position to serve its customers during the recovery in sales which we confidently expect, and hence has served the interests of its shareholders.

A comparison of 1975 results with those for 1971, another recession year, lends substance to this statement. For example, in 1971, total demand for nickel in those markets traditionally served by Inco declined sharply. The drop in Inco deliveries in that year accounted for approximately 80 per cent of this over-all decline. In 1975, with a much greater fall-off in demand, slightly less than 50 per cent of the total downturn appears to have been represented by the reduction in Inco deliveries. Again, in 1971 Inco's earnings dropped to \$1.21 a share, down 56 per cent from the 1970 level. In 1975, during the worst recession since World War II, earnings dropped to \$2.51 a share, down 37 per cent from the record 1974 level.

While a decline in earnings of the magnitude experienced last year cannot be accepted with equanimity, we regard these results as evidence that Inco's marketing strategy, its continuing process improvement and cost-control programs, and other innovations have done much to mitigate the adverse impact of recession and inflation.

Inco's relatively strong position during the most recent cyclical downturn has also allowed us to proceed with significant investments for the future to meet both long-term and short-term demand for nickel. Toward this end, we have gone ahead with important investments in Canada and elsewhere. Construction at our overseas projects is continuing on

schedule and we expect initial production in Indonesia toward the end of this year and in Guatemala during 1977. We have also invested substantially in inventory.

At year-end 1975, our finished primary nickel inventory represented a five to six months' supply position. We are confident that this inventory will be needed by the market in the not too distant future and that it will serve our customers well during the next period of peak demand for nickel. We also consider this building of stocks a sound financial investment as well as a prudent and responsible means of providing, within the limits of our capability, stable employment in those communities in which we have production operations.

While the recession and its impact on Inco's financial position have obviously required restraint, our program of growth and diversification has proceeded modestly on three fronts. In the United Kingdom, we acquired Daniel Doncaster & Sons Limited, a multi-plant metals forging and machining company. In Canada, we will begin construction this spring on a metal-processing facility which will employ new techniques for the direct rolling of strip from metal powders. The principal outlet we are aiming for is the coinage market. Engineering is well advanced, all major production equipment items are on order, and operations should commence by mid-1977. In addition, Inco has launched a venture capital program aimed at participation in worthwhile entrepreneurial investment opportunities in Canada, the United States and Europe. As we said a year ago, we intend to continue to seek orderly diversification, both internally and through acquisition, as circumstances warrant.

The major tax changes affecting the mining industry, which were announced in 1974 by the Canadian provincial and federal governments, were in some cases modified in 1975. Hopefully this is indicative of increasing governmental understanding and concern for the health of the resource industries. Certainly this is needed.

Sharply lower earnings, refunds from prior tax periods, and other factors reduced Inco's effective income and mining tax rate in 1975 to 42 per cent, approximately that applicable to manufacturing industries. Unfortunately, in a more normal year, the impact of taxes under current regulations would be substantially heavier.

On January 19, 1976, the United States Department of Justice filed a civil suit against Inco claiming that our acquisition of ESB in 1974 violates U.S. antitrust law and asking that Inco be required to divest itself of ESB. We believe that the acquisition does not entail anti-competitive consequences, just as we believe that the continued ownership of ESB is very much in the interest of Inco's shareholders. We will be taking all necessary actions to resist the government suit and to protect Inco's position.

At the Annual Meeting on April 21, shareholders will be asked to ratify a bylaw changing the Company's name to INCO LIMITED. This more accurately reflects the increasingly diverse character of Inco's activities, and adopts the name by which the Company has been familiarly known for many years.

Looking to the future, there appears to be a consensus that the world is emerging, albeit slowly, from the recession and that this recovery will in due course be reflected in a resurgence of metals sales, which customarily lags somewhat behind the rest of the economy. We concur, and we believe that Inco is well prepared to profit from the period of growth which lies ahead.

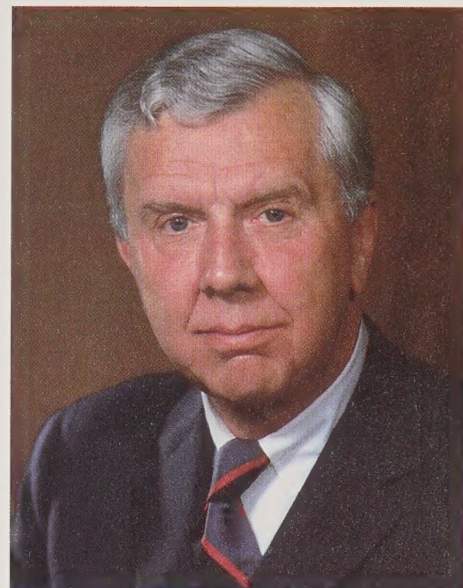
L. Edward Grubb

Chairman and Chief Officer

J. Edwin Carter

President

February 12, 1976

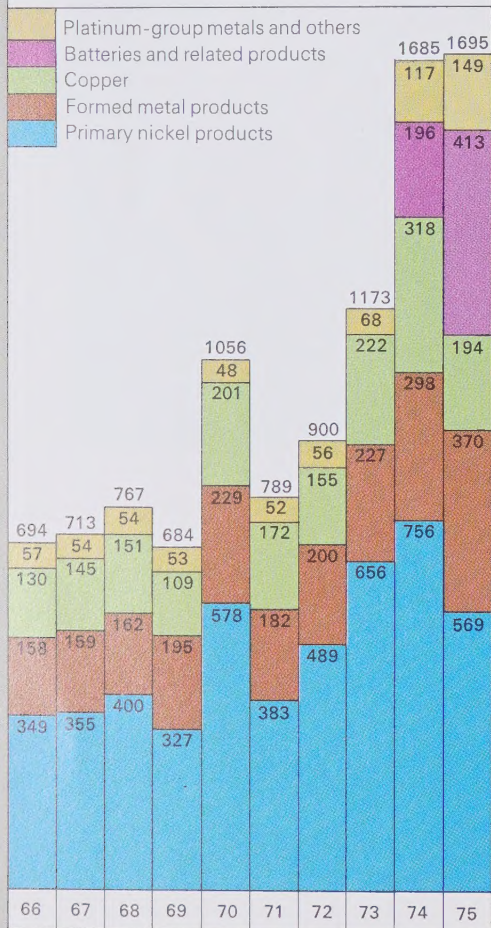


L. Edward Grubb



J. Edwin Carter

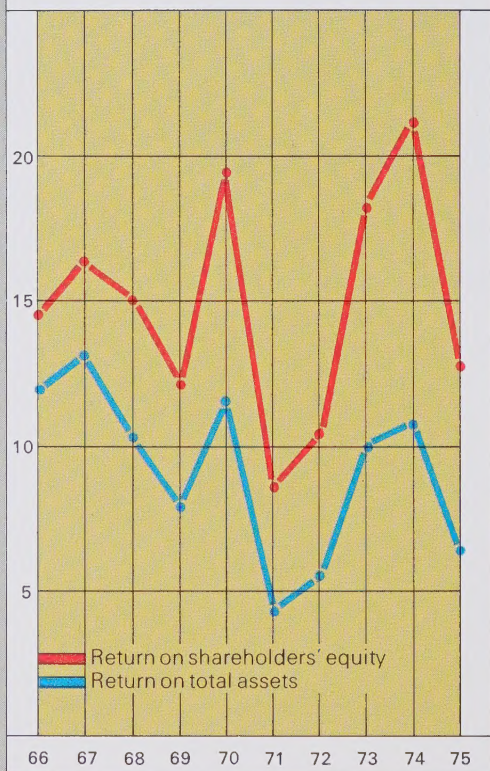
Sales by principal products (millions \$)



Net earnings (millions \$)



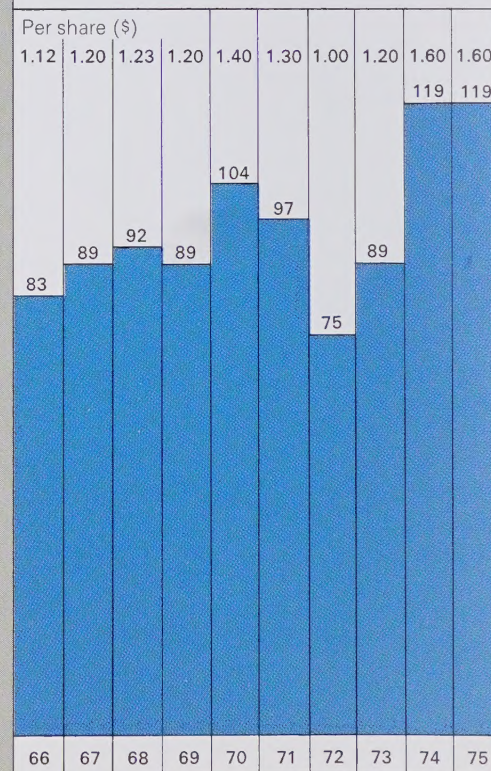
Return on shareholders' equity and total assets (%)



Capital expenditures (millions \$)



Dividends (millions \$)



Financial review

Net earnings in 1975 were \$186.9 million, or \$2.51 a share, compared with restated earnings of \$298.6 million, or \$4.01 a share, in 1974. Substantially reduced nickel deliveries, sharply lower copper prices and continuing increases in unit costs in the metals business were primarily responsible for the decline, which was moderated by improved prices for nickel and rolling mill products.

Effective August 17, 1975, the Company acquired Daniel Doncaster & Sons Limited at a cost of \$23.6 million. Doncaster, based in the United Kingdom, is primarily engaged in the production of forged and machined products and the manufacture of turbine products. This subsidiary and the rolling mills constitute the formed metal products portion of the Company's metals business.

Net sales in 1975 and 1974 were:

	1975	1974
	(in millions)	
Primary nickel	\$ 569	\$ 756
Refined copper	194	318
Formed metal products	370	298
Precious metals	44	59
Other metal products	21	20
Total metal products	1,198	1,451
Batteries and other products	497	234
	\$1,695	\$1,685

Total nickel deliveries were 351 million pounds in 1975, compared with 549 million pounds in 1974, a decline of 36 per cent which reflected the generally low demand for metals resulting from the worldwide recession. The \$124 million decrease in 1975 copper sales resulted primarily from declining prices. The Company realized only 59 cents a pound, on average, for copper in 1975, compared with 88 cents a pound in 1974. Sales of formed metal products in 1975 benefited from improved prices and included \$26.3 million attributable to Doncaster subsequent to its acquisition.

ESB Incorporated contributed sales of \$497 million for the 12 months of 1975, compared with \$234 million in 1974 for the

five months subsequent to its acquisition effective August 1, 1974. ESB's costs during these periods were \$378 million and \$187 million, respectively. ESB's level of business, which had been adversely affected by a low demand for consumer products earlier in the year, has strengthened significantly since September, with earnings showing a sharp improvement.

Total costs for the year were \$1,072 million, compared with \$888 million in 1974. In the metals business, which accounted for costs of \$694 million in 1975 and \$701 million in 1974, increased labor costs and rapidly escalating supply and energy costs adversely affected unit costs despite continued improvements in operating efficiencies. Doncaster added \$22.7 million to 1975 costs since its acquisition. Brief strikes in the Ontario Division adversely affected costs disproportionately to the time periods involved.

Selling, general and administrative expenses were \$145 million in 1975, compared with \$101 million in 1974. This increase was due almost entirely to the inclusion in 1975 of ESB's operations for the entire year, while 1974 results included ESB's operations only for the five months since its acquisition.

Income and mining tax expense decreased to \$135 million in 1975 from \$248 million in 1974 primarily as a result of the decline in earnings. The Company's effective income and mining tax rate for 1975 was 42 per cent, compared with 45.4 per cent for 1974. Contributing to this lower rate was the favorable settlement in 1975 of Canadian tax issues relating to prior periods, the lesser impact of Ontario's graduated mining tax structure applicable to the lower 1975 level of mining income, and the full year's application in 1975 of the changes in Canadian federal taxes which became effective May 7, 1974. Taking into account Canadian tax changes which became effective January 1, 1976 as a result of legislation already enacted, the Company's effective income and mining tax rate on Canadian income is expected to be somewhat less than 50 per cent in 1976.

The adoption in 1975 of the last-in, first-out (LIFO) method of accounting for certain metals inventories in the United States resulted in an \$8.0 million reduction in 1975 net earnings. This method, which charges earnings with most recent costs, is acceptable for income tax purposes in the United States. Consistent with generally accepted accounting practice for this type of change, the financial results of prior

periods have not been restated. Also in 1975, the Company changed its method of translating Canadian and foreign currencies into United States currency in accordance with Statement of Financial Accounting Standards No. 8 issued by the Financial Accounting Standards Board in October 1975. As a result of this change, other income, costs and net earnings in 1975 increased by \$14.0 million, \$5.5 million, and \$8.5 million, respectively, and other income and net earnings in 1974, as restated, decreased by \$7.4 million.

Inventories at December 31, 1975 were \$726 million, an increase of \$193 million from the prior year-end. While higher unit costs have contributed to this increase, the single most important factor has been the build-up of primary nickel inventories. The cost of the additional inventories has been financed, in part, by short-term debt.

Capital expenditures in 1975 totaled \$333 million, compared with \$149 million in 1974. More than half of the 1975 expenditures related to the development of the lateritic ore projects in Indonesia and Guatemala, and the majority of the remainder related to the continued replacement and modernization of the Company's production facilities in Canada. Capital expenditures for 1976 are expected to approximate \$500 million, the major portion of which is again designated for the lateritic projects and will be financed to a great extent by long-term loans arranged by the Company's Indonesian and Guatemalan subsidiaries.

The Company's rate of return on total assets fell from 10.7 per cent in 1974 to 6.2 per cent in 1975, while the return on shareholders' equity declined from 21.1 per cent to 12.6 per cent, due primarily to the lower 1975 earnings. The 1975 returns were also depressed by increasingly substantial investments in the as yet non-producing Indonesian and Guatemalan projects.

On February 2, 1976, the Board of Directors declared a quarterly dividend of 35 cents a share, payable March 5 to Class A and Class B shareholders of record on

February 13. The dividend on the Class B Common Shares was declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. In 1975, the Company paid dividends of \$119.3 million, or \$1.60 a share, the same as in 1974.

On December 18, 1975, the Canadian government issued regulations under its Anti-Inflation Act and, in a press release issued the same day, indicated that it intended to introduce legislation early in 1976 imposing a levy on export sales. The program, effective from October 14, 1975, is scheduled to continue until December 31, 1978. The December 18 regulations establish complex rules with respect to prices, profits, and compensation throughout the period of the program and also establish initial restraints relative to dividends through October 13, 1976. The proposed legislation with respect to export sales would institute a levy at the rate of 100 per cent on the portion of earnings from export sales determined to be in excess of stated guidelines, with provision for the refund of up to 90 per cent of any levy which might be applicable, on a dollar-for-dollar basis, for investments in approved projects in Canada. Refunds earned by these investments could be offset against payments of the export levy, and any net levy incurred would be deductible for federal income tax purposes. In any event, 75 per cent of any gross levy, to the extent not refunded as a result of approved investments, would be refundable three to ten years after the end of the control period.

Based on the regulations issued December 18 and on information currently available concerning proposed legislation affecting export revenues, the Company believes that, for its first compliance period, the year 1975, it was in compliance with the program in all respects, and that it was not subject to a levy on its export revenues.

Metals marketing

Deliveries and prices

Inco's metal deliveries in 1975, compared with 1974:

	1975	1974
	(in thousands)	
Nickel (pounds)	351,120	549,070
Copper (pounds)	334,550	367,190
Platinum-group metals† and gold (troy ounces)	301	317
Silver (troy ounces)	1,900	1,910
Cobalt (pounds)	1,040	1,110
Iron ore (long tons)	509	583

†Platinum, palladium, rhodium, ruthenium, iridium and osmium

Sales of all metal products in 1975, compared with 1974:

	1975	1974
	(in thousands)	
Primary nickel	\$ 568,904	\$ 756,369
Refined copper	194,148	317,957
Formed metal products‡	369,976	297,784
Precious metals	44,438	58,414
Other	20,577	20,108
	\$1,198,043	\$1,450,632

Sales of all metal products by geographic area in 1975, compared with 1974:

	1975	1974
	(in thousands)	
United States	\$ 492,716	\$ 545,534
Europe	478,822	475,645
Canada	141,693	238,641
Asia	54,486	159,110
Others	30,326	31,702
	\$1,198,043‡	\$1,450,632

‡Includes sales of \$26,320,000 by Daniel Doncaster & Sons Limited subsequent to its acquisition effective August 17, 1975.

Nickel

Inco's significantly reduced nickel deliveries in 1975, a 36 per cent decline from the record 1974 level, reflected the generally low demand for metals resulting from the worldwide recession. Furthermore, 1975 deliveries were adversely affected as customers drew upon large nickel inventories. At the same time, there was a continuing high level of production due, in part, to output by new producers. Inventory draw-down continued to have an adverse impact on deliveries in early 1976.

Sales were reduced significantly by a decline in the production of stainless and specialty steels, as well as by decreased demand for nickel-plated products in the automotive and consumer products industries. The strongest sector in a generally depressed market was the foundry industry.

On August 29, the prices of the Company's primary nickel products were increased on average about 9½ per cent. The new prices were \$2.20 a pound for electrolytic nickel and nickel pellets and \$2.07 a pound (nickel content) for

nickel oxide sinter 75. The new prices had a minor effect on 1975 revenues since most of the Company's nickel deliveries through November were contracted for at prior prices.

Inco's contractual arrangements with customers, which took effect at the beginning of 1975, helped the Company's sales efforts in a period marked by a serious downturn in nickel demand. The Company's nickel inventories at year-end represented a supply position of five to six months.

Inco's nickel pellets continued to gain markets during the year. They are considered by most producers of high-nickel alloys as the highest standard of nickel quality. Bulk-handling installations for pellets at customers' plants are proving to be economically advantageous to users.

During the year, Incomet* nickel, which was introduced in 1973, established a strong position as a lower cost finishing material in steel mills and as a finishing and charge material in the foundry industry.

A new nickel-containing additive, Incocal* Alloy 10, designed to introduce calcium into molten steel and iron, was put on the market in 1975. This product and the Incomag* Alloy additives, widely used in foundries, are being evaluated in steel mills as a means of improving product quality of alloys and stainless steels.

Copper

Deliveries of ORC* copper in 1975 were 9 per cent below the record 1974 level. Consumption in Canada was substantially reduced. Although over-all demand also weakened in Europe, selective demand for highly regarded ORC copper remained fairly strong there. However, revenues from European sales were adversely affected by low prices on the London Metal Exchange (LME).

The Company realized an average price of 59 cents a pound for its copper in 1975,

*Inco trademark



Top: Inco nickel oxide sinter 75 is being used increasingly in argon-oxygen furnaces by stainless steel producers.

Bottom left: Tanks of 9% nickel steel, an Inco development, were specified for this liquefied natural gas supertanker and its sister ship.



Bottom right: Demonstration in Europe of Inco's fully automatic device for filling anode plating baskets with Inco S* nickel pellets.

compared with 88 cents in 1974. Approximately 40 per cent of the sales in 1975 were in Canada, where the price remained steady throughout most of the year at 63.3 cents (Cdn.) a pound. Most of the balance was sold in Europe at prices based on LME quotations, which ranged from the equivalent of 64.5 cents a pound on April 1 to 51.3 cents on December 10, 1975. The Canadian price vis-a-vis LME quotations was in sharp contrast to 1974 when the LME quotation averaged the equivalent of 93.1 cents a pound, while the much lower Canadian price ranged from 82.5 cents (Cdn.) to 73 cents (Cdn.). On February 12, 1976, the date of this Report, the LME quotation was the equivalent of 54 cents a pound.

Formed metal products

Inco produces at its rolling mills and at its newly acquired metals forging and machining subsidiary, Daniel Doncaster & Sons Limited, formed metal products for sale to fabricators and others.

Effective July 1, 1975, the former Huntington Alloy Products Division in the United States was separately organized as a corporation under the name Huntington Alloys, Inc.

Record sales revenues were achieved in 1975 by both Huntington and Henry Wiggin & Company Limited in the United Kingdom. The physical volume of deliveries was down somewhat, however, from 1974, as the recession weakened some segments of Inco's rolling mill business, especially strip and wire products for the consumer products and electronics industries.

The higher level of sales, \$370 million, compared with \$298 million in the previous year, reflected improved prices for rolling mill products, a more favorable product mix resulting from continued demand in the chemical, petrochemical and energy fields, and the inclusion of sales of \$26.3 million attributable to Doncaster subsequent to its acquisition on August 17, 1975.

Precious metals

The substantial decrease in Inco's precious metals sales from the 1974 level, a drop of 24 per cent, was the reflection of weak demand and price deterioration throughout the year for all the platinum-group metals, as well as gold. For example, the price of gold declined from about \$180 a troy ounce at the beginning of the year to approximately \$140 at year-end.

Metals production

Inco's nickel production in 1975 was 460 million pounds, compared with a record 510 million pounds in 1974. The decline in production was chiefly the result of brief strikes at the Sudbury and Shebandowan, Ontario, operations, which had an effect on production that was disproportionately greater than the time periods involved.

In 1976, nickel production is expected to be greater than in 1975 but below the record level of 1974.

Mines

A total of 21.2 million short tons of ore, with an average grade of 1.40 per cent nickel and .92 per cent copper, was mined by the Company during the year. This compares with 22.0 million short tons of ore, having an average grade of 1.39 per cent nickel and .97 per cent copper, in 1974.

Inco has 16 mines in operation: 13 in Ontario and three in Manitoba. Mine development work continued in the Ontario and Manitoba Divisions to ensure the orderly long-range utilization of ore reserves.

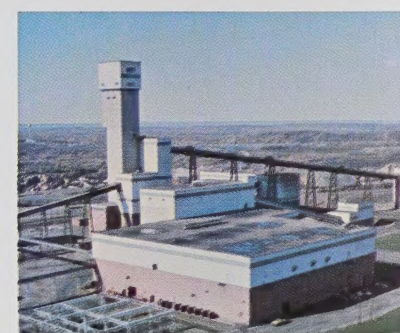
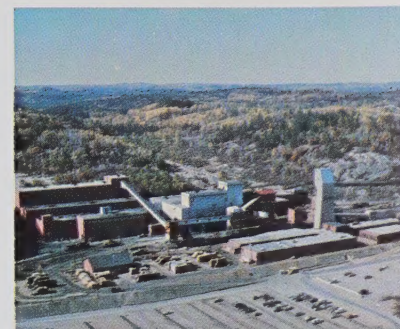
In the Sudbury area, work began on the development of a new mine, Levack East, with production expected to begin in 1984. At the Victoria mine, production was temporarily halted in December 1975; it is scheduled to resume late in 1976, following redevelopment work. At Kirkwood, the orebodies are expected to be mined out in the first quarter of 1976, and this small mine will be closed.

In the Manitoba Division, work continued on deepening the Birchtree mine and on underground exploration at the Pipe mine.

Rolling mills

A new tube reducer and a vacuum arc remelt furnace were brought into operation during 1975 at Huntington Alloys, Inc. These facilities, which cost slightly more than \$8 million, will help meet the strong demand for tubular products and high-purity alloys for aerospace and nuclear applications.

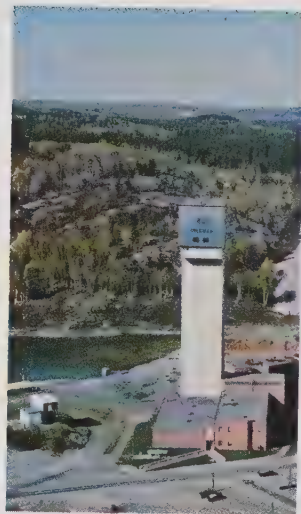
In view of severe natural gas curtailments in the United States, strict fuel



In 1975, as in previous years, Inco invested many millions of dollars to maintain the ongoing modernization and efficiency programs at its mining and processing facilities. Above are some of the Company's Canadian mines and mills, with the Copper Cliff and Thompson complexes on the far right.

Right: Artist's sketch of the plant to be built in the Sudbury area for the direct rolling of metal powders.

Far right: New five-inch tube reducer now in operation at the Burnaugh, Kentucky, plant of Huntington Alloys, Inc.





Modernization is particularly noticeable underground where new machines and methods have greatly improved mining efficiency in recent years.

Top left: One of Inco's electric three-boom drill jumbos. This equipment is quieter, safer, reduces costs and provides improved atmospheric conditions.

Top right: New underground repair centre at Thompson mine has significantly reduced repair and servicing time on equipment.

Left: Women in increasing numbers were employed during the year in jobs once considered "men's work."

conservation and other energy management programs have been implemented at the Huntington, West Virginia, and the Burnaugh, Kentucky, plants to ensure interruption-free operations and maintenance of planned production levels.

At the Wiggin plant in Hereford, England, new techniques were introduced during 1975 that brought about significant improvements in the magnetic properties of its nickel-iron range of alloys, which are widely used in the electronics industry.

In April 1975, the Company announced plans to build a metal-processing facility in the Sudbury District of Ontario for the direct rolling of metal powders. Inco's investment in the project is estimated at \$29 million. The plant will use Inco's proprietary method of producing atomized powder to manufacture nickel and cupro-nickel alloy strip primarily for coinage applications. The schedule calls for construction to begin in the spring of 1976 and for operations to start in the second half of 1977.

Environmental control

Attention continued to be centred on the control of air and effluent water quality at the Company's producing locations.

Refinements to the Copper Cliff smelter dust-recovery system further decreased dust emission to a level of only 15 per cent of that experienced prior to 1972. A well equipped weather office was commissioned. It permits short-range prediction of local meteorological conditions, further enhancing Inco's control of air quality.

Existing facilities at Sudbury permitted recycling of 85 per cent of the water required for process operations. Two new waste-water treatment plants, built at a cost of some \$6 million, went into operation in the Sudbury area at year-end to treat the bulk of the remainder, which is not recycled.

Metals research

Inco, exclusive of ESB, spent some \$29 million on process and product research and development in 1975, compared with some \$28 million in 1974.

The J. Roy Gordon Research Laboratory, near Toronto, continued development of new and improved processes for the treatment of ores, concentrates and smelter intermediates available to the Company in various parts of the world. Selected processes were evaluated at Inco's Canadian pilot plants for possible commercial application.

Studies aimed at developing processes to decrease sulphur dioxide emissions from the Company's Canadian smelters are continuing. Special attention was also directed to further development of technology for treating deep-ocean mineral-bearing nodules; for refining of molten nickel matte; and for the electrowinning of nickel.

Two royalty-bearing licenses were granted. A Canadian copper producer was licensed to use Inco-developed top-blown rotary converter technology for smelting copper concentrates, and a European company was licensed to cast components in Inco-developed new high-strength, low-expansion alloys.

Significant progress can be reported on several Inco innovations mentioned in previous Annual Reports:

Inco's high corrosion-resistant nickel-base alloy, IN-939, for cast blades and vanes in industrial gas turbines is undergoing full-scale industrial testing.

The basic mechanical alloying discovery was extended to a strong, corrosion-resistant and readily fabricable iron-base

superalloy for turbine combustors and other applications where temperatures exceed 1,230°C.

A more efficient method was developed for producing nickel or nickel-cobalt electroformed moulds for casting articles in plastics, zinc alloys and glass.

Among new technologies that emerged from Inco's product research laboratories in 1975 were:

"T/P" (thermoplastic processing), a technique that renders nickel-chromium superalloy powders more amenable to hot forming, thereby permitting lower cost production of turbine components.

An automatic pellet-feeding device for electroplating tanks to take full advantage of S* nickel pellets' ability to flow smoothly.

A process for reclaiming metal from industrial waste materials normally discarded.



Nickel-containing manganese nodules from the deep-ocean floor undergoing processing experiments at the Company's research laboratory at Sheridan Park, Ontario. From top: X-ray fluorescence analysis of nodules; feeding nodules into kiln; granulating molten matte; emptying small test autoclave from pressure leaching experiment.

Metals projects, exploration, ore reserves

Indonesia

Construction of facilities for the first stage of the lateritic nickel operations of P.T. International Nickel Indonesia, a majority-owned subsidiary, at Soroako on the island of Sulawesi, was more than 60 per cent completed by the end of 1975. Approximately 6,500 construction and operating personnel were employed on the project at year-end. The combined work force will reach a peak of 9,000 during 1977.

The first stage, designed to produce 35 million pounds of nickel annually in the form of nickel matte, is scheduled for completion in the latter half of 1976. Construction of the second-stage facilities began in 1975. When this expansion is completed in 1978, capacity will approximate 100 million pounds a year.

Agreement was reached during the year with the Indonesian government for the construction and operation by Inco Indonesia of a 110-megawatt hydroelectric plant on the Larona River to supply power to the expanded project. Site-clearing and preliminary construction work have begun.

A reevaluation in November, reflecting actual experience on the project and the impact of inflation and other factors on future costs, raised the estimated total project cost to \$820 million.

Guatemala

Near Lake Izabal in eastern Guatemala, construction of facilities for the lateritic nickel project of Exploraciones y Explotaciones Mineras Izabal, S.A. (Exmibal), a majority-owned subsidiary, neared the halfway mark by year-end, when some 2,000 construction and operating personnel were employed at the site.

Scheduled to come on stream in 1977, the project will have an annual production rate of 28 million pounds of nickel contained in nickel matte. The estimated

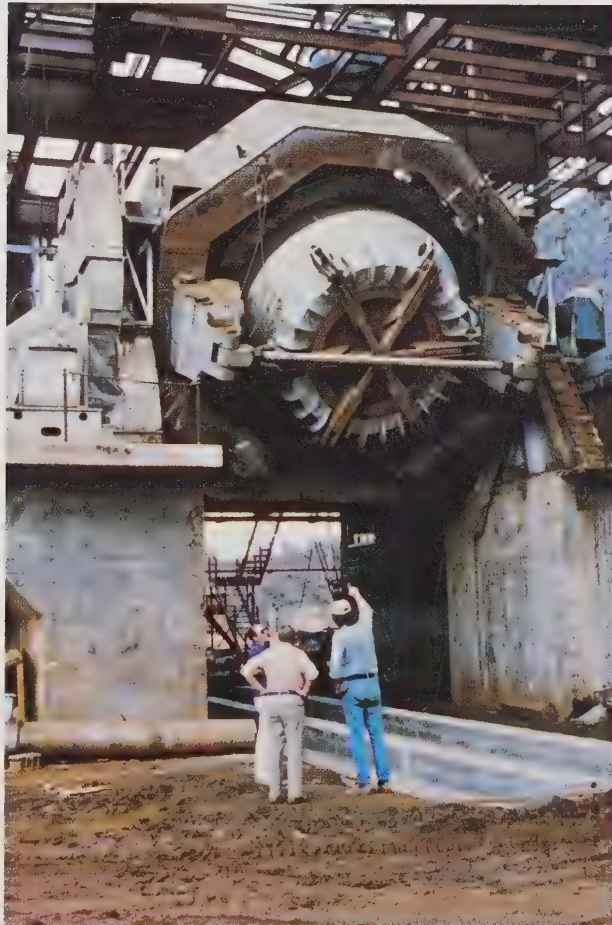


Top: An over-all view of Stage I of the Indonesian nickel project, which will begin producing late this year.

Right: The top-blown rotary converter that will be used in the processing plant.

Far right: A section of the 328-ft. reduction kiln leading into the furnace building under construction on the right.

Bottom: The first of the 850 housing units required for the operating staff were completed during the year.





Top: The plant that will process Exmibal's Guatemalan laterite ores takes shape on the edge of Lake Izabal.

Centre left: Crew working on a section of the roof supports of the large dry ore storage building.

Centre right: The base of the electric furnace which will be the heart of the processing plant.

Bottom left: Construction workers at the site line up for lunch outside their mess hall.

Bottom right: Class in session at one of the two local schools that have been built by Exmibal.

total project cost has been revised to \$224 million.

Other developments

Preliminary economic and engineering studies of a potential lateritic nickel project at Barro Alto in the State of Goiás, Brazil, were completed in late 1975 and are being evaluated. Baminco Mineração e Siderurgia, S.A., a Brazilian company in which Inco and a group of West German partners have equal interests, holds the mining rights to the deposit.

On Michigan's Keweenaw Peninsula, where Inco is engaged in a joint venture with Homestake Mining Company, underground and surface exploration is continuing. A prototype facility for the production, from native copper ores, of six million pounds annually of copper in concentrate began operation in June.

In April 1975, Inco announced its participation in a multinational joint venture for the mining of manganese nodules from the deep ocean. Other participants, with capabilities in the marine, mining and mineral processing fields, are: Deep Ocean Mining Co., Ltd. (DOMCO), representing Japanese companies from the Sumitomo and other groups; a group of German companies organized under the name AMR, consisting of Metallgesellschaft AG, Preussag AG, Rheinische Braunkohlenwerke AG and Salzgitter AG; and a United States company, SEDCO, Inc., Dallas, Texas. The four co-venturers have equal interests in the project.

The participants, currently engaged in feasibility studies, contemplate the eventual establishment of facilities for commercial-scale ocean mining and the recovery of

metals from manganese nodules containing important quantities of nickel, copper and cobalt.

In November, Inco announced the suspension of activity on its copper-nickel project near Ely, Minnesota. The Company had initiated a reassessment of the economic feasibility of this project in early 1974. The decision to suspend work on the project was influenced by uncertainties and delays brought about by changes and proposed changes in Minnesota state policy regarding copper-nickel development, by escalating capital costs and by changes in market conditions. The project will be kept under regular review for possible reactivation as environmental and other state policy determinations are made.

During 1975, Inco continued to discuss with the French government the conditions under which the Company might participate in the possible future development of nickel deposits in New Caledonia.

The Company also held discussions with French interests relating to the initiation of a program of exploration and economic studies to assess the possibility of developing chromium deposits at its Tiebaghi property in New Caledonia.

Exploration

Inco spent \$30.1 million on exploration in 1975, compared with \$19.9 million in 1974. The increase was primarily attributable to expanded exploration programs for oil and gas.

The search for new nickel resources at Canadian mines continued. Field exploration for natural resources of interest to the Company was conducted in Canada, Africa, Australia, Brazil, Indonesia, Mexico, the Philippines and the United States. Exploration offices were opened at Denver and Milwaukee in the United States, and at Manila in the Philippines.

Inco is a major participant in an oil and gas joint venture that completed an unsuccessful off-shore well on a prospect in Guatemalan east coast waters; a second prospect is being drilled. An interest of

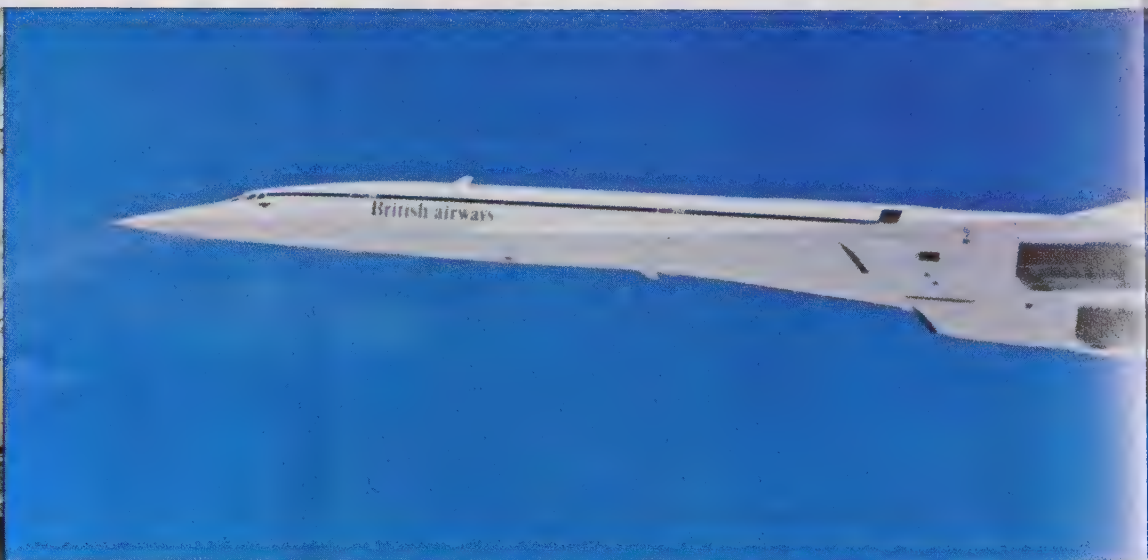
almost 5 per cent is held in Panarctic Oils Ltd., which reported some promising results during the year in its search for oil and gas in the Canadian Arctic islands.

Ore reserves

On December 31, 1975, the Company had proven ore reserves in Canada of 415 million short tons, containing 6.7 million tons of nickel and 4.3 million tons of copper. Corresponding reserves at year-end 1974 were 414 million short tons, containing 6.7 million tons of nickel and 4.2 million tons of copper.

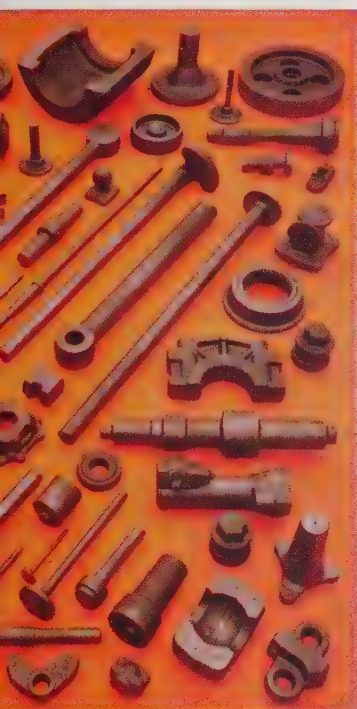
Proven reserves are only those that have been sampled in sufficient detail to enable a reliable calculation of ore tonnages and tons of metal content.

The Company has also outlined very large resources of nickeliferous laterite at Soroako, on the island of Sulawesi in Indonesia, and in the Lake Izabal area in eastern Guatemala.



Top left: Nickel and titanium alloy blades forged by Doncaster are used in the turbine and compressor rotors of the Olympus engine, which powers the supersonic Concorde airliner (right).

Bottom left: Doncaster's patented nuts and bolts are widely used in propeller and rudder assemblies for giant bulk carriers.



Daniel Doncaster & Sons Limited



Daniel Doncaster & Sons Limited, headquartered in Sheffield, England, employs a broad range of hot-shaping techniques in the production of high-stress metal components. Forged and machined products for general engineering applications and for gas turbines are manufactured at seven plants in the United Kingdom. Research and development facilities are located in Sheffield. On December 31, 1975, the Doncaster group had 3,888 employees.

The acquisition of Doncaster, effective August 17, 1975, will, among other benefits, strengthen the long-standing roles of Doncaster and Wiggin in the growth of the gas turbine industry.

Forged and machined products

These products are manufactured at three forge and two specialist machining works.

Closed die works

High-speed mechanical forging presses and hydraulic forge-extrusion equipment are used to shape components for engines, gear boxes and axles for the van and truck market and for lift trucks and mining machinery, as well as parts for compressed air, hydraulic and mechanical systems, pipeline and process-plant control systems, and agricultural equipment.

Open tool works

Large forgings are manufactured for heavy engineering gear transmission systems and

pressure vessels, as well as for the oil, gas and petrochemical industries. Doncaster manufactures specialty steel components for such diverse applications as seabed equipment and nuclear reactor plants. Offshore and land-based oil and gas extraction is a promising market.

Machining works

A variety of forged products are converted into precision components, including turbine blading, pipe and valve flanges for the oil industry, parts for mining equipment, and high-specialty hydraulic fastener systems for marine shafts, propellers and rudder systems.

Turbine products

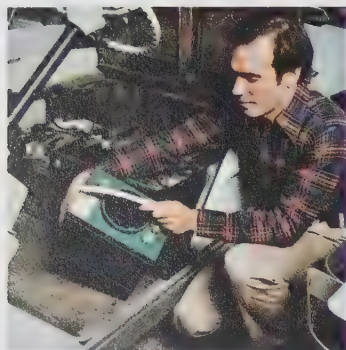
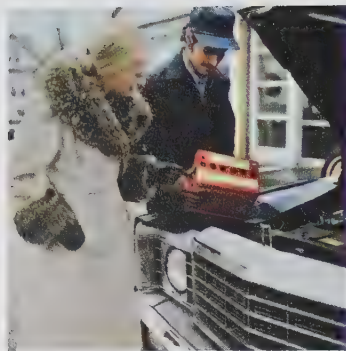
Doncaster has been the leading producer of gas turbine forgings for the aviation industry in the European market since the early 1950's. It also produces components for power turbines for electricity generation, pipeline pumping and gas compression.

Technology developed by Doncaster in forming nickel and titanium alloys and stainless and other alloy steels has enabled the company to meet the high-precision requirements of components in the most advanced turbines and compressors.

Bottom centre: H.R.H. Prince Charles talks with the operator of electronic blade inspection equipment during his recent visit to a Doncaster turbine products plant.

Above right: Display of typical forgings from the company's Sheffield closed die works.

Bottom right: Forged and machined rings awaiting shipment from Doncaster's open tool works.



Top: New ESB maintenance-free automotive batteries eliminate need for adding water.

Bottom: Improvements to ESB's golf cart battery have cut maintenance time to a minimum.

ESB Incorporated

Sales of ESB Incorporated were \$497 million in 1975. In the five months of 1974, subsequent to its acquisition effective August 1, ESB contributed sales of \$234 million.

ESB's business reflected the depressed economy during much of 1975. In the last four months of the year, however, there was significant improvement in the company's sales and earnings.

Energy sources and related products

In the primary battery field, ESB's Ray-O-Vac Division, with its patented system, has taken a substantial lead in providing the energy source for the electronic watch industry through the development of a wide range of button cells to meet sharply increasing demand.

ESB has developed a line of maintenance-free passenger car and truck batteries that do not require the addition of water during their expected service life. These batteries are being produced for major mass merchandisers in the United States and are also being marketed under ESB's Exide* and Willard* brand names.

The Automotive Division introduced its Sure-Fill* golf cart battery during the year. This new design cuts maintenance time by two-thirds and increases battery life expectancy.

Expansion of the Wisco Division's plant in Raleigh, North Carolina, enabled ESB to supply a greater variety of motorcycle battery products for the U.S. market, which, in the past, depended primarily on imports.

New lighting devices introduced in 1975 included a disposable pocket flashlight, a cordless light fixture for hallways and closets, and a 180-degree single-tube fluorescent lamp.

Responding to expected growth in demand, the Exide Power Systems Division equipped its Sumter, South Carolina, plant with facilities that place it among the world's most advanced fully integrated centres for the production of industrial batteries.

Plans were announced for a major industrial battery plant to be built at a site to be selected in the U.S. Midwest, an important market area. The installation will be operational towards the end of 1977.

The Exide Power Systems Division broke ground in December 1975 for an industrial electronics assembly plant in Raleigh,

North Carolina. The facility, which will replace a smaller plant, will support a projected doubling of sales of industrial power conversion equipment.

In 1975, the Division began using ESB's exclusive heat-seal process in the manufacture of batteries for forklift trucks, mine locomotives and other applications. The heat-seal bond eliminates the need for periodic resealing.

ESB entered into an agreement in 1975 with Allmanna Svenska Elektriska Aktiebolaget (ASEA) of Sweden to form a joint company, Exide ASEA, Inc. The firm plans to develop a capability for the design, manufacture, sale and service of battery energy storage plant systems for load leveling by utilities and industrial customers.

A new lead-acid battery plant was opened near New Delhi, India. This is a joint venture with Indian partners.

A facility for the assembly and testing of uninterruptible power systems (UPS) was established in Canada to serve the active market for "Back-Up"* power-control systems.

Safety and health products

ESB Medcor developed an improved Lithicron† heart pacer. Powered by lithium cells, it is about half the weight and size of older models and has a projected life of eight years.

A more advanced version of the ESB Medcor Pacer-Check* unit, which enables physicians to monitor pacemakers by telephone, was introduced in late 1975.

A new, higher-rated Centaurus* emergency power system was put on the market. This system is an automatic, maintenance-free, low-cost emergency energy source, consisting of long-life batteries and solid state circuitry.

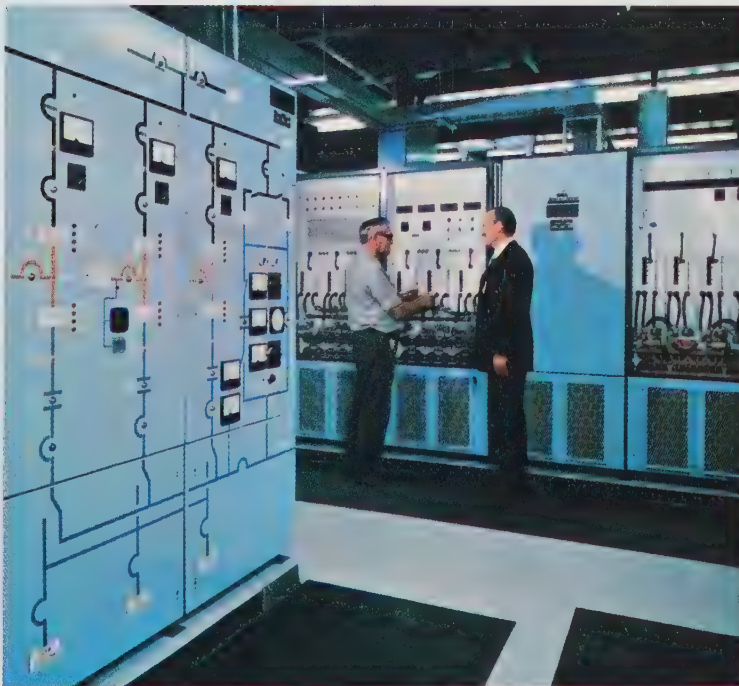
ESB's acquisition of Granet Corporation, Framingham, Massachusetts, added industrial work gloves to the Willson Division's line of safety products, which includes respirators, hard hats and safety glasses.

Technology and research

Development of new techniques for energy storage retained a high priority at

*ESB trademark

†ESB Medcor trademark



Top: Exide's heat-sealing process at its new plant in Sumter, South Carolina, has greatly reduced battery maintenance costs and increased service life.

Centre: Lines of Ray-O-Vac flashlights, lanterns and dry-cell batteries continue to grow.

Left: Uninterruptible power supply installation at the Bank of Nova Scotia, Toronto. ESB produces these systems in Canada for airport control towers, data banks and computers.

Right: ESB's new heart pacemaker is half the weight and much smaller than the model (right) it replaces.

Bottom right: Ray-O-Vac's Silver II* button cells last longer in today's watches.

ESB's Technology Center in Yardley, Pennsylvania.

Cooperative contracts with the electric utility industry were continued as a part of a long-term development effort on molten salt batteries. These programs cover sodium-sulphur systems, as well as ESB's sodium chloride system which has the potential advantage over the sulphur system of reduced operating temperatures. The lower temperature minimizes the problems of heat removal, corrosion and thermal insulation encountered in molten salt systems.

Employees

At year-end, ESB had 15,760 employees, compared with 16,503 on December 31, 1974. Of these, 10,344 were employed in the United States, 862 in Canada, and 4,554 in 16 other countries.

ESB Incorporated

Corporate Headquarters: 5 Penn Center Plaza, Philadelphia, Pennsylvania 19103, U.S.A.

Edward J. Dwyer	Frederick J. Port
Chairman of the Board	President and Chief Executive Officer

96 Plants in 18 countries

Batteries and related electrical and electronic products:

28 plants in the U.S.; 8 in Canada; 5 in Brazil; 4 in Japan; 3 in Venezuela; 2 each in Iran, Mexico and the U.K.; and one plant in each of the following countries: Colombia, Dominican Republic, Guatemala, India, Morocco, Nicaragua, Peru, South Africa, Thailand and Zaire

Electric motors:

4 plants in the U.S.; 2 in the U.K.; 1 in India

Safety and health products:

8 plants in the U.S.; 1 in Canada; 1 in Mexico

Chemicals, plastics and other:

9 plants in the U.S.; 3 in Brazil; 2 in the U.K.; 1 in Mexico

Technology Center

Yardley, Pennsylvania

Corporate organization

Directors

J. Kenneth Jamieson, who had been a Director since December 1968, retired from the Board on August 1, 1975.

Henry S. Wingate retired from the Board on September 3, 1975. Mr. Wingate was Chairman and Chief Officer from April 1960 to April 1972 and had served as a member of the Board for nearly 34 years.

Robert C. Scrivener retired from the Board on September 3, 1975.

James C. Parlee retired from the Board on February 2, 1976. Mr. Parlee had been a Director since June 1965 and was Vice-Chairman from April 1972 to December 31, 1975.

The Rt. Hon. Lord Nelson of Stafford, Chairman of The General Electric Company, Limited, London, England, was elected to the Board of Directors on December 1, 1975. Lord Nelson had previously served on the Board from February 1966 to January 1974.

Ashby McC. Sutherland, who had been Assistant to the Chairman since May 1974, was elected a member of the Board and Senior Vice-President of the Company on February 2, 1976.

The Rt. Hon. Viscount Weir, C.B.E., died on August 16, 1975. Lord Weir, Director of The Weir Group Limited, Glasgow, Scotland, had been a member of the Board of Directors since February 1959.

The Board of Directors on December 1, 1975, passed a bylaw reducing the number of Directors from 25 to 22. This bylaw will be presented for approval at the Annual Meeting of Shareholders on April 21, 1976.

Officers

Charles F. Baird was elected Vice-Chairman, effective January 1, 1976. Mr. Baird had been Senior Vice-President since September 1972 and has been a Director since January 1974.

On April 16, 1975, Terrence Podolsky was elected Vice-President. He is responsible for directing the Company's exploration activities.

David C. Dawson was elected Vice-President, effective September 1, 1975. He has responsibilities for the Company's diversification activities.

Industrial relations

Three-year collective agreements were negotiated with the United Steelworkers of America covering production and maintenance employees at Sudbury, Port Colborne and Shebandowan, Ontario.

In the Manitoba Division, negotiations with the United Steelworkers, which began towards the end of November, are continuing. The current collective agreement expires February 29, 1976.

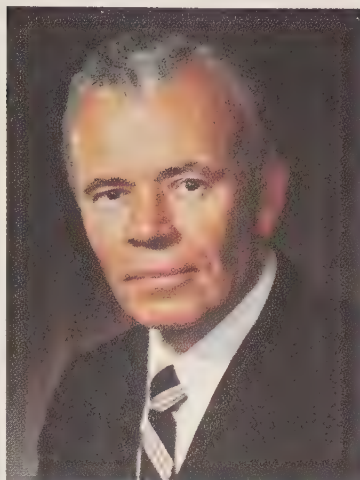
In the United Kingdom, agreements were reached with unions representing employees at the Wiggin rolling mill, Hereford, the Clydach refinery and the European Research and Development Centre, Birmingham. The agreements will be subject to renegotiation in late 1976.

Employees

On December 31, 1975, there were 37,755 people employed by the Company in the primary metals, metals forming and related fields, compared with 32,459 at the end of 1974. Of the 1975 total, 23,971 were located in Canada, 8,214 in the United Kingdom, 4,004 in the United States and 1,566 in other areas. These figures include 3,888 Doncaster personnel, but do not include the 15,760 employees of ESB.

Shareholders

At year-end, the Company had 84,369 shareholders of record, compared with 86,795 on December 31, 1974. According to the Company's record of shareholders, 64 per cent have addresses in Canada, 34 per cent in the United States and 2 per cent elsewhere. Canadian residents of record held 48 per cent of the shares outstanding, United States residents of record 37 per cent, and residents of record in other countries 15 per cent.



Charles F. Baird



James C. Parlee



The Company's Senior Vice-Presidents, from left: Ashby McC. Sutherland, John McCreedy, Kenneth A. DeLonge, William Steven.

Consolidated statement of earnings

The International Nickel Company of Canada, Limited and subsidiaries

Year ended December 31	1975	1974*
	(in thousands)	
Revenues		
Net sales	\$1,694,768	\$1,684,608
Other income	42,693	27,709
	1,737,461	1,712,317
Costs and expenses		
Costs	1,071,636	888,440
Selling, general and administrative expenses	145,261	101,468
Depreciation and depletion	111,009	97,360
Interest expense	49,421	45,031
Pension expense	38,037	32,999
	1,415,364	1,165,298
Earnings before income and mining taxes	322,097	547,019
Income and mining taxes	135,208	248,431
Net earnings	\$ 186,889	\$ 298,588
Net earnings per share	\$2.51	\$4.01

*Restated

Consolidated statement of retained earnings

Year ended December 31	1975	1974
	(in thousands)	
Retained earnings at beginning of year as previously reported	\$1,254,501	\$1,067,766
Adjustments resulting from retroactive application of accounting changes		
Elimination of liability for self-insurance, less related deferred taxes	17,174	17,174
Adoption of new currency translation methods	(12,273)	(4,859)
	4,901	12,315
Retained earnings at beginning of year as restated	1,259,402	1,080,081
Net earnings for the year	186,889	298,588
Dividends paid (\$1.60 per share in 1975 and 1974)	(119,284)	(119,267)
Retained earnings at end of year	\$1,327,007	\$1,259,402

The Explanatory Financial Section on pages 25 through 28 is an integral part of these statements.

Auditors' report

To the Shareholders of The International Nickel Company of Canada, Limited:

We have examined the financial statements appearing on pages 22 through 28 of this report. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 of the Explanatory Financial Section, the Company adopted in 1975 the last-in, first-out method of determining cost for certain metals inventories and, to conform with recently issued accounting standards, changed its methods of accounting for currency translations and for self-insurance.

In our opinion, these financial statements present fairly the financial position of The International Nickel Company of Canada, Limited and subsidiaries at December 31, 1975 and 1974 and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of determining cost for certain metals inventories and after giving retroactive effect to the changes, with which we also concur, in accounting for currency translations and for self-insurance.

Consolidated balance sheet

The International Nickel Company of Canada, Limited and subsidiaries

December 31	1975	1974*
Current assets	(in thousands)	
Cash	\$ 38,454	\$ 26,606
Marketable securities, at cost which approximates market	66,465	234,616
Accounts receivable	290,939	331,851
Inventories	726,075	533,406
Prepaid expenses	8,443	7,269
Total current assets	1,130,376	1,133,748
Property, plant and equipment	2,657,401	2,334,268
Less – Accumulated depreciation and depletion	872,354	774,044
	1,785,047	1,560,224
Other assets		
Investments in and advances to affiliates, on an equity basis	43,394	34,739
Miscellaneous securities, at cost	18,535	16,583
Charges to future operations	6,234	8,986
Unamortized cost in excess of net assets of business acquired	42,089	45,431
	110,252	105,739
Total assets	\$3,025,675	\$2,799,711
Current liabilities		
Accounts payable and accrued expenses	\$ 265,802	\$ 224,424
Notes payable	181,796	77,978
Long-term debt due within one year	10,244	4,382
Income and mining taxes payable	83,081	178,939
Total current liabilities	540,923	485,723
Other liabilities		
Long-term debt	611,236	539,519
Deferred income and mining taxes	342,300	313,900
Pension benefits	28,748	28,583
Minority interest	18,115	15,574
	1,000,399	897,576
Shareholders' equity		
Common shares without nominal or par value, issued		
74,568,386 shares; 1974—74,542,460 shares	96,310	95,974
Capital surplus	61,036	61,036
Retained earnings	1,327,007	1,259,402
	1,484,353	1,416,412
Total liabilities and shareholders' equity	\$3,025,675	\$2,799,711

* Restated

The Explanatory Financial Section on pages 25 through 28 is an integral part of these statements.

Approved by the Board of Directors:

L. Edward Grubb

J. Edwin Carter

Consolidated statement of changes in financial position

The International Nickel Company of
Canada, Limited and subsidiaries

Year ended December 31	1975	1974*
Financial resources were provided by		
	(in thousands)	
Net earnings	\$ 186,889	\$298,588
Income charges (credits) not affecting working capital		
Depreciation and depletion	111,009	97,360
Deferred income and mining taxes	25,500	37,100
Write-off of obsolete fixed assets	7,517	8,534
Amortization of cost in excess of net assets of business acquired	3,342	1,298
Currency translation adjustments	(8,594)	6,762
Other – net	465	(2,494)
Working capital provided by operations	326,128	447,148
Long-term borrowings	82,967	39,583
Minority interest	2,541	2,030
Total	411,636	488,761
Financial resources were used for		
Dividends paid to shareholders	119,284	119,267
Capital expenditures	332,664	149,242
Acquisition of businesses, net of working capital acquired	8,448	107,198
Reduction of long-term debt	7,153	3,745
Other – net	2,659	(949)
Total	470,208	378,503
Increase (decrease) in working capital	\$ (58,572)	\$110,258

Analysis of changes in working capital

Increase (decrease) in current assets

Cash and marketable securities	\$(156,303)	\$ 66,572
Accounts receivable	(40,912)	76,896
Inventories	192,669	160,610
Prepaid expenses	1,174	3,653
Total	(3,372)	307,731

Increase (decrease) in current liabilities

Accounts payable and accrued expenses	41,378	100,944
Notes payable and other debt	109,680	36,598
Income and mining taxes payable	(95,858)	59,931
Total	55,200	197,473

Increase (decrease) in working capital	\$ (58,572)	\$110,258
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*Restated

The Explanatory Financial Section on pages 25 through 28 is an integral part of these statements.

Explanatory financial section

Note 1 – Summary of significant accounting policies

This summary of the major accounting policies of The International Nickel Company of Canada, Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies have been followed consistently in all material respects for the periods covered in the financial statements, except for the changes described in Note 2.

The financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, conform with those established in the United States.

The statements are expressed in United States currency. In accordance with Statement of Financial Accounting Standards No. 8 issued by the Financial Accounting Standards Board in October 1975, cash, accounts receivable, current liabilities, the liability for pension benefits and long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, expenses and certain costs are translated at weighted average rates prevailing during each period; inventoried costs, depreciation and depletion are translated at historical rates. Realized exchange gains and losses and exchange adjustments resulting from the translation of items from currencies other than United States currency are applied to earnings currently. The effects of these new procedures on results of operations are presented in Note 2.

Inventories are stated at the lower of cost or net realizable value. With effect from January 1, 1975, cost for certain metals inventories in the United States is determined by the last-in, first-out method. The effect of this change on results of operations is described in Note 2. Cost for other metals is average production or purchase cost, and for supplies is average purchase cost. Cost for batteries and related products is determined principally on a first-in, first-out basis.

Substantially all property, plant and equipment is stated at cost. Such cost in the case of the Company's mines – virtually all of which were discovered and developed by the Company – represents, with relatively minor exceptions, only that part of related development and acquisition costs which was capitalized. All expenditures relating to the Indonesian and Guatemalan projects, presently under development, are capitalized.

Depreciation is calculated using the straight-line method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to periodic review. Depletion is calculated by a method which allocates the related recorded costs, established as explained above, ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded costs of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

The excess of purchase cost over the fair value of acquired net assets, relating to the acquisition in 1974 of ESB Incorporated, is amortized on a straight-line basis over 15 years.

Except in areas currently under development where production is highly probable, exploration expenditures are expensed as incurred.

Research and development expenditures, except for land, buildings and equipment, the usefulness of which extends beyond the immediate life of a project, are expensed as incurred. Research and development expense totalled \$36,331,000 in 1975 and \$31,461,000 in 1974.

The Company and its subsidiaries have several pension plans

covering substantially all employees. Costs are provided for, and funded, based on actuarial estimates. Past service costs at December 31, 1975 amounted to \$135,000,000, the major portion of which will be charged to operations over the next 14 years. At December 31, 1975, the vested benefits exceeded the assets of the pension trust funds and balance sheet accruals by approximately \$25,000,000.

As a result of tax regulations, certain timing differences exist in the reporting of deductions for book and tax purposes, primarily depreciation. Income and mining taxes in the Consolidated Statement of Earnings include deferred taxes. Investment tax credits in Canada and the United States are accounted for by the "flow-through" method. The amounts of credit were not material.

The Company has not provided for certain taxes that might become payable if undistributed earnings of subsidiaries were to be paid as dividends because only a minor portion of such earnings has not been or will not be reinvested.

The calculation of earnings per share is based on the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per share.

Note 2 – Accounting changes

The Company has adopted, with effect from January 1, 1975, the last-in, first-out (LIFO) method of accounting for certain metals inventories in the United States. As a result, net earnings were reduced by \$7,974,000 (11 cents per share). Consistent with generally accepted accounting practice for this type of change, results of prior periods have not been restated. The LIFO method, which charges earnings with most recent costs, is acceptable for income tax purposes in the United States.

In accordance with Statement of Financial Accounting Standards No. 8, the Company has changed its method of translating certain items of Canadian and foreign currencies into United States currency, and now recognizes exchange adjustments resulting from the translation procedures in current earnings. As a result of these changes, other income, costs and net earnings in 1975 increased by \$14,018,000, \$5,516,000, and \$8,502,000 (11 cents per share), respectively. The Statement also requires the retroactive application of the new procedures by the restatement of the results of prior periods. Accordingly, other income and net earnings in 1974 have been reduced by \$7,414,000 (10 cents per share).

Pursuant to Statements of Financial Accounting Standards Nos. 5 and 11, issued by the Financial Accounting Standards Board in March and December 1975, respectively, the Company has eliminated its \$20 million liability for self-insurance and the related deferred taxes by restating retained earnings at January 1, 1974. There were no provisions for self-insurance charged to 1975 or 1974 earnings.

Note 3 – Acquisitions

Effective August 17, 1975, the Company acquired Daniel Doncaster & Sons Limited, a producer of forged and machined products located in the United Kingdom, at a cost of \$23,623,000. The

acquisition has been accounted for as a purchase. Accordingly, the consolidated financial statements include Doncaster's assets and liabilities as of December 31, 1975 and the results of its operations and changes in financial position for the period from August 17 to December 31, 1975.

The acquisition cost has been allocated as follows based on the fair value of the underlying net assets at acquisition:

	(in thousands)
Current assets	\$32,146
Property, plant and equipment	15,157
	47,303
Current liabilities	\$16,971
Long-term debt	4,031
Other items – net	2,678
Net assets at acquisition	\$23,623

Doncaster's net sales in 1975 since its acquisition were \$26,320,000. The contribution to 1975 consolidated net earnings from Doncaster's operations was not significant. If the acquisition had been effected as of December 31, 1973, consolidated net sales would have increased by \$60,360,000 in 1974 and by \$50,300,000 during the portion of 1975 preceding its acquisition; after pro forma adjustments, the effect of Doncaster's results on consolidated net earnings would not have been significant in either of these periods.

Effective August 1, 1974, the Company acquired ESB Incorporated, a major battery producer with operations in the United States, Canada, Mexico and many other countries, at a cost of \$233,794,000. The acquisition has been accounted for as a purchase. Accordingly, the consolidated financial statements include the assets and liabilities of ESB as of December 31, 1975 and 1974 and the results of its operations and changes in financial position for the periods then ended since its acquisition. The acquisition cost exceeded the restated fair value of the acquired net assets by \$46,729,000.

ESB's net sales were \$496,725,000 in 1975 and \$233,976,000 in 1974 subsequent to its acquisition. During these periods, ESB's contributions to consolidated earnings before income and mining taxes were \$16,824,000 and \$6,384,000, respectively. These contributions consisted of earnings from ESB's operations before taxes, adjusted for the effects of purchase accounting procedures applicable to the acquisition. If the acquisition had been effected as of December 31, 1973, consolidated net sales would have increased by \$278,434,000 in the first seven months of 1974; after pro forma adjustments, the effect of ESB's results on consolidated net earnings would not have been significant in this period.

On January 19, 1976, the United States Department of Justice filed a civil antitrust suit against the Company alleging that the acquisition of ESB was in violation of Section 7 of the Clayton Act and asking that the Company be required to divest itself of ESB. In its answer, the Company will deny the violations alleged in the complaint.

Note 4 – Other income

Other income includes currency translation adjustments and realized exchange gains and losses (a net gain of \$10,621,000 in 1975 and a net loss of \$9,791,000 in 1974), net gains on sales of assets, interest, dividends, and income from equity interests in affiliates and joint ventures.

Note 5 – Remuneration of directors and officers

Selling, general and administrative expenses include remuneration of directors and officers of the Company (including past officers) as follows:

Year ended December 31	1975	1974
	(in thousands)	
Aggregate remuneration – as directors (20 in 1975, 21 in 1974) paid by:		
The International Nickel Company of Canada, Limited	\$ 211	\$ 226
The International Nickel Company, Inc.	—	4
	\$ 211	\$ 230
Aggregate remuneration – as officers (42 in 1975, 41 in 1974) paid by:		
The International Nickel Company of Canada, Limited	\$2,848	\$3,540
The International Nickel Company, Inc.	151	187
	\$2,999	\$3,727

Number of directors who are also officers: 7 in 1975, 6 in 1974.

Note 6 – Property, plant and equipment

Property, plant and equipment consists of the following:

December 31	1975	1974
	(in thousands)	
Mines and mining plants	\$ 921,307	\$ 874,562
Smelters	597,703	584,826
Refineries	317,586	300,870
Formed metal product facilities	278,902	249,832
Battery and related product facilities	125,352	113,293
Indonesian and Guatemalan projects, under development	338,710	134,459
Other	77,841	76,426
	2,657,401	2,334,268
Accumulated depreciation	669,952	591,554
Accumulated depletion	202,402	182,490
	872,354	774,044
	\$1,785,047	\$1,560,224

The provision for depreciation and depletion of \$111,009,000 for 1975 includes depreciation of \$91,097,000 and depletion of \$19,912,000. The 1974 provision of \$97,360,000 includes depreciation of \$75,030,000 and depletion of \$22,330,000.

Note 7 – Long-term debt

Outstanding long-term debt consists of the following:

December 31	1975	1974*
	(in thousands)	
Debentures, 6.85% due 1993	\$150,000	\$150,000
Debentures, 9.25% due 1990	73,800	75,675
Debentures, 7.50% due 1978	73,800	75,675
Debentures, 8.625% due 1991	73,800	75,675
Borrowings of Indonesian subsidiary	92,498	48,072
Bank term loan, due 1981	50,000	50,000
Revolving credit loans, at prime rate	20,000	20,000
Sterling loan, due 1982	40,470	—
Other loans due 1976-2001, average rate 8.3% in 1975, (9.3% in 1974)	47,112	48,804
	621,480	543,901
Long-term debt due within one year	10,244	4,382
Long-term debt	\$611,236	\$539,519

* Restated

The 6.85% debentures require sinking fund payments totalling \$114,000,000 from 1979 through 1992 in annual installments ranging from \$6,000,000 to \$11,000,000. The 9.25% debentures require sinking fund payments of \$2,000,000 (Cdn.) annually from 1976 through 1989.

The 7.50% debentures are not subject to sinking fund requirements and are not redeemable prior to maturity. The 8.625% debentures require sinking fund payments of \$2,000,000 (Cdn.) annually from 1977 through 1990.

The Company's majority-owned Indonesian and Guatemalan subsidiaries have entered into agreements with and have obtained commitments from various lenders and suppliers which provide for long-term credits of approximately \$483,000,000 and \$104,000,000, respectively. Fees averaging slightly less than ½ of 1% per annum are payable on the unused portions of these credits. At December 31, 1975, \$92,498,000 had been drawn down by the Indonesian subsidiary at interest rates ranging from 6% to 10.4% per annum. While the Company has entered into undertakings to support the financing of the Indonesian subsidiary, it has not extended a direct financial guarantee of its debt.

The bank term loan to ESB Incorporated of \$50,000,000 bears interest at 1% above the prime rate, limited to a maximum cumulative average of 9%.

The revolving credit agreement with three banks provides for prime interest rate loans of up to \$40,000,000, with a minimum of \$20,000,000 borrowed at all times. The agreement terminates June 30, 1977 with provision for two one-year extensions at the option of ESB Incorporated.

The sterling loan (£20,000,000) bears interest at 1¼% above the London interbank offering rate and is repayable in nine semiannual installments commencing December 1978.

At December 31, 1975, no other long-term financing agreements had been entered into by the Company or its subsidiaries.

Long-term debt maturities and sinking fund requirements for each of the five years through 1980 are: 1976 – \$10,244,000; 1977 – \$18,793,000; 1978 – \$94,693,000; 1979 – \$51,033,000; 1980 – \$30,651,000.

Interest expense on long-term debt was \$39,735,000 in 1975 and \$36,691,000 in 1974. Interest of \$9,514,000 incurred in 1975 (in addition to \$3,585,000 incurred in prior years) in connection with the Indonesian and Guatemalan borrowings has been capitalized.

Note 8 – Income and mining taxes

The provisions for income and mining taxes were as follows:

Year ended December 31	1975	1974
	(in thousands)	
Future deferred	\$ 25,500	\$ 37,100
Current deferred	(3,300)	5,900
Total deferred taxes	22,200	43,000
Current taxes	113,008	205,431
	\$135,208	\$248,431
Canada	\$ 88,639	\$213,987
Other (principally United States and United Kingdom)	46,569	34,444
	\$135,208	\$248,431

The lower provision for taxes in 1975 is attributable principally to decreased earnings. Additionally, 1975 taxes were reduced by the favorable settlement of Canadian tax issues relating to prior years, the lesser impact of Ontario's graduated mining tax structure applicable to the decreased 1975 level of mining income, and the full year's application in 1975 of the changes in Canadian federal taxes which became effective May 7, 1974. The combined Canadian federal-provincial statutory income tax rate was 37.0% for

1975 and 41.5% for 1974. The reconciliation between the combined statutory income tax rates and the effective income and mining tax rates follows:

Year ended December 31	1975	1974*
	Percentage of earnings before income and mining taxes	
Combined Canadian federal-provincial statutory income tax rate	37.0%	41.5%
Canadian federal-provincial depletion	(7.3)	(10.5)
Net Canadian statutory income tax rate	29.7	31.0
Canadian provincial mining taxes	11.0	15.4
Canadian federal-provincial income tax relief	—	(1.4)
Net mining taxes	11.0	14.0
Net Canadian income and mining tax rate	40.7	45.0
Settlement of Canadian tax issues relating to prior years	(3.5)	—
Difference between Canadian and other statutory income tax rates	3.2	0.8
Other	1.6	(0.4)
Effective income and mining tax rate for year	42.0%	45.4%

* Restated

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of \$342,300,000 in the Consolidated Balance Sheet. The cumulative tax effect of timing differences relating to items of a current nature of \$17,300,000 is included in the current liability for income and mining taxes payable.

Note 9 – Marketable and miscellaneous securities

Market value in excess of cost of marketable equity securities included in marketable securities and miscellaneous securities was \$2,115,000 and \$12,987,000, respectively, at December 31, 1975; there were no such securities relative to which cost exceeded market value.

Note 10 – Inventories

Inventories consist of the following:

December 31	1975	1974
	(in thousands)	
Metals (at average cost)		
Finished and in-process	\$454,356	\$344,159
Supplies	67,984	60,472
	522,340	404,631
Metals (at last-in, first-out cost)		
Finished and in-process	88,897	—
Batteries and other products (at first-in, first-out cost)		
Finished and in-process	73,212	78,549
Raw materials and supplies	41,626	50,226
	114,838	128,775
Total	\$726,075	\$533,406

Note 11 – Stock option plans

The Key Employees Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1957, authorized the granting of options on 1,750,000 unissued common shares at prices not less than 95% of the fair market value on the day the options were granted. The options are exercisable in installments beginning not earlier than one year after date of grant over a period not exceeding ten years from the date of grant. During 1975 no options were exercised and options for 2,450 shares expired. At December 31, 1975, options for a total of 1,616,944 shares had been exercised, and 48,665 shares (including 26,125 shares for officers) were subject to outstanding options granted in August 1966 at a price of \$32.70 a share. The Plan was terminated in 1968 except as to options then outstanding and no further options may be granted thereunder.

The Key Employees Incentive Plan, ratified by shareholders at the Special General Meeting on July 17, 1968, authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value, determined in accordance with the Plan, on the day the option is granted. The Plan provides that no shares subject to option shall be purchasable prior to the expiration of one year after the date of grant nor after a period not exceeding ten years from the date of grant. During 1975, options for 35,200 shares were granted, no options were exercised, and options for 41,312 shares expired. As of December 31, 1975, options for a total of 5,387 shares had been exercised, 300,826 shares were available for future grants, and 693,787 shares (including 344,400 shares for officers) were subject to outstanding options as follows:

Date of grant	Option price per share	Shares for officers	Total shares
February 1969	\$37.75	52,000	61,500
April 1969	37.44	30,300	104,437
August 1969	35.19	—	3,000
April 1970	45.88	34,500	66,700
April 1971	44.50	34,500	65,625
January 1972	32.32	22,000	22,000
April 1972	33.00	20,000	20,000
October 1972	34.50	43,500	61,000
August 1974	27.00	33,400	91,900
August 1974	27.19	74,200	162,425
October 1975	25.48	—	1,900
October 1975	25.69	—	33,300
		344,400	693,787

Directors who are not officers of the Company are not entitled to participate in the Plans.

On August 14, 1974, the Company authorized the substitution of its common shares to replace shares of common stock of ESB Incorporated (a company acquired effective as of August 1, 1974) under options previously granted by ESB and held by certain of its key employees. The number of common shares of the Company so substituted, and the option prices per share thereof, were determined in accordance with Section 425 of the United States Internal Revenue Code on the basis of the number of ESB shares subject to option, the option prices thereon, and the price of \$41 per share paid for ESB shares in the acquisition of ESB. The

substituted options outstanding at December 31, 1975, none of which are held by directors or officers of the Company, are as follows:

Date of grant by ESB	Option price per Inco share	Total shares
March 1973	\$18.24	1,507
June 1974	13.10	2,261
		3,768

During 1975, substituted options relative to 29,694 shares became exercisable of which 25,926 were exercised.

The proceeds from exercise of stock options are credited to the common shares account.

Note 12 – Common shares

The Company has authorized 90,000,000 Class A Common Shares and 90,000,000 Class B Common Shares. The two classes are interconvertible at any time and are similar in all respects, including dividend rights, except that dividends on Class B shares may be declared payable out of "1971 capital surplus on hand" as defined in the Income Tax Act of Canada. At December 31, 1975, there were 74,568,386 common shares issued and outstanding comprised of 41,852,267 Class A shares and 32,716,119 Class B shares. At December 31, 1974, there were 74,542,460 common shares issued and outstanding comprised of 46,700,692 Class A shares and 27,841,768 Class B shares.

Note 13 – Anti-inflation program

Towards the end of the year, the Canadian government introduced an anti-inflation program, effective October 14, 1975 and scheduled to continue until December 31, 1978. The program provides restraints on prices, profits, compensation and dividends. The government also indicated in a press release that, as part of the program, it intended to introduce legislation early in 1976 imposing a levy on export revenues in excess of stated guidelines. Up to 90 per cent of any levy which might be applicable would be refundable, on a dollar for dollar basis, for investments in approved projects in Canada. In any event, a minimum of 75 per cent of any gross levy would be refundable three to ten years after the control period. Aggregate dividends declared or paid by the Company during the first compliance period from October 14, 1975 to October 13, 1976 may not exceed the dividends paid during the last fiscal year ended prior to October 14, 1975, which in the Company's case was the year ended December 31, 1974 in which the Company paid dividends of \$1.60 per share. Dividends in subsequent compliance periods are expected to be covered by as yet unissued regulations. While there are a number of general uncertainties concerning the implementation of this program, the Company believes that it was in compliance with the program for the year 1975 in all respects and that it was not subject to a levy on its export revenues. It is not possible at this time to assess the potential impact of the program on the Company's future earnings.

Supplementary financial information

The International Nickel Company of Canada, Limited and subsidiaries

INCO

Quarterly data

Year ended December 31	1975	1974
Net sales (in thousands)		
First quarter	\$ 419,449	\$ 333,414
Second quarter	413,912	408,373
Third quarter	417,423	450,368
Fourth quarter	443,984	492,453
Year	\$1,694,768	\$1,684,608

Net earnings (in thousands)

First quarter	\$ 56,933*	\$ 71,198*
Second quarter	54,257*	75,195*
Third quarter	39,991*	81,311*
Fourth quarter	35,708	70,884*
Year	\$ 186,889	\$ 298,588*

Net earnings per share

First quarter	\$.76*	\$.96*
Second quarter	.73*	1.00*
Third quarter	.54*	1.09*
Fourth quarter	.48	.96*
Year	\$2.51	\$4.01*

Dividends paid per share

First quarter	\$.35	\$.30
Second quarter	.35	.35
Third quarter	.35	.35
Fourth quarter	.35	.35
Year-end extra	.20	.25
Year	\$1.60	\$1.60

*Restated

Lines of business data

Year ended December 31	1975	1974
(in thousands)		
Net sales		
Metals	\$1,198,043	\$1,450,632
Batteries and related products ⁽¹⁾	412,742	195,596
Other ⁽¹⁾	83,983	38,380
	\$1,694,768	\$1,684,608

Earnings before income and mining taxes

Metals	\$ 305,273	\$ 540,635*
Batteries and related products ⁽¹⁾	17,431	6,750*
Other ⁽¹⁾	(607)	(366)
	\$ 322,097	\$ 547,019*

(1) Consists of ESB's net sales and contributions to earnings before income and mining taxes since its acquisition effective August 1, 1974.

*Restated

Market price range per share

Year ended December 31	1975	1974
------------------------	------	------

New York Stock Exchange

First quarter	\$25¼ – 21⅞	\$40⅞ – 33½
Second quarter	29⅞ – 24⅝	36⅞ – 27¼
Third quarter	29 – 25	30 – 21¾
Fourth quarter	26⅞ – 23	24¼ – 18⅞

Toronto Stock Exchange

(Canadian dollars)

First quarter	\$26 – 21¼	\$39 – 33⅞
Second quarter	30 – 24½	35¼ – 26¼
Third quarter	29¼ – 25⅝	29¼ – 21½
Fourth quarter	26⅞ – 23½	24¾ – 18⅞

Pension trust funds

The Company and its subsidiaries have pension and retirement plans covering substantially all employees. Irrevocable pension trust funds, which are separate and distinct from the accounts of the Company and its subsidiaries, have been established to implement these pension plans. The funds consist of Government bonds and other marketable securities at cost, cash and other assets. Trust fund operations are summarized as follows:

Year ended December 31	1975	1974
(in thousands)		
Balance in funds at beginning of year	\$321,915	\$272,982
Company contributions	34,720	27,256
Employee contributions	331	243
Income from investments	9,043	11,734
Fund balances relating to ESB Incorporated, acquired in 1974	—	31,057
	44,094	70,290
Benefits paid	24,303	21,357
Balance in funds at end of year	\$341,706	\$321,915

A copy of the 1975 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to The Secretary, The International Nickel Company of Canada, Limited at Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 or at One New York Plaza, New York, New York 10004.

Ten-year review

The International Nickel Company of Canada, Limited and subsidiaries

	1975	1974(1)	1973	1972	1971	1970	1969	1968	1967	1966
Summary of operations										
(in thousands)										
Net sales	\$1,694,800	1,684,600	1,172,800	900,300	789,200	1,055,800	684,200	767,300	713,200	694,100
Costs (2) (3)	\$1,071,600	888,400	643,300	594,400	525,300	619,200	431,400	470,500	434,700	452,100
Interest expense	\$ 49,400	45,000	42,300	43,800	33,900	17,100	13,400	6,500	—	—
Income and mining taxes (2)	\$ 135,200	248,400	120,500	42,600	23,500	121,400	58,100	87,200	78,300	69,000
Net earnings as previously reported		\$ 306,000	226,900	109,900	94,200	208,600	116,500	143,700	141,800	118,200
Per share (4)		\$ 4.11	3.04	1.47	1.26	2.80	1.56	1.93	1.90	1.59
Restatement adjustments (2)		\$ (7,400)	(1,300)	2,200	(3,900)	(1,200)	(1,300)	(2,900)	1,600	400
Per share (4)		\$ (.10)	(.02)	.03	(.05)	(.02)	(.02)	(.04)	.02	.01
Net earnings	\$ 186,900	298,600	225,600	112,100	90,300	207,400	115,200	140,800	143,400	118,600
Per share (4)	\$ 2.51	4.01	3.02	1.50	1.21	2.78	1.54	1.89	1.92	1.60
Dividends	\$ 119,300	119,300	89,400	74,500	96,900	104,200	89,300	91,500	89,100	83,100
Per share (4)	\$ 1.60	1.60	1.20	1.00	1.30	1.40	1.20	1.23	1.20	1.12
Shares outstanding (weighted average) (4)	74,552	74,541	74,535	74,525	74,499	74,435	74,401	74,363	74,255	74,249
Other financial data (in thousands)										
Capital expenditures (5)	\$ 332,700	149,200	88,800	125,200	244,200	272,500	175,200	175,400	145,700	73,000
Exploration expenditures (5)	\$ 30,100	19,900	17,800	18,700	32,900	31,900	19,900	17,000	13,300	11,700
Working capital (2)	\$ 589,500	648,000	537,800	395,700	387,300	375,800	356,300	430,800	321,000	373,600
Net property, plant and equipment	\$1,785,000	1,560,200	1,395,400	1,402,200	1,351,900	1,167,700	940,000	798,300	652,200	532,600
Total assets (2) (6)	\$3,025,700	2,799,700	2,248,800	2,078,300	2,094,800	1,827,400	1,477,000	1,396,200	1,120,300	1,022,800
Shareholders' equity (2)	\$1,484,400	1,416,400	1,236,900	1,100,700	1,062,800	1,067,900	963,100	936,300	886,000	827,600
Return on total assets (2)	6.2%	10.7%	10.0%	5.4%	4.3%	11.3%	7.8%	10.1%	12.8%	11.6%
Return on shareholders' equity (2)	12.6%	21.1%	18.2%	10.2%	8.5%	19.4%	12.0%	15.0%	16.2%	14.3%
Operating data (in thousands)										
Ore mined — short tons	21,200	22,000	19,700	19,200	27,600	27,700	18,300	24,300	19,900	17,100
Nickel deliveries — pounds	351,100	549,100	517,000	425,100	342,500	518,900	382,200	480,800	463,500	500,200
Copper deliveries — pounds	334,600	367,200	327,100	308,200	340,300	348,100	208,200	314,200	310,900	293,000
Platinum-group metals and gold deliveries — troy ounces	301	317	413	452	437	388	422	441	476	501
Other statistics										
Employees — metals business	37,755	32,459	31,311	32,082	36,089	37,313	34,321	33,314	32,552	31,837
— ESB Incorporated	15,760	16,503								
Shareholders	84,369	86,795	90,660	92,024	92,217	84,320	84,219	75,587	64,207	67,120

(1) Includes applicable data relating to ESB Incorporated for the five months since its acquisition effective August 1, 1974.

(2) In 1975, the Company adopted certain accounting changes which are described in Note 2 of the Explanatory Financial Section. Periods prior to 1975 have been restated to reflect, where required, retroactive application of these changes.

(3) As in the Company's classification of costs in the Consolidated Statement of Earnings.

(4) As adjusted to reflect the split of shares on a 2½ for 1 basis in 1968.

(5) Includes capitalized exploration expenditures.

(6) Does not include any value for the minerals in the major portion of the Company's ore reserves.

As the Company's 1970 Annual Report indicated, 1970 was a year of solid achievement. Metal deliveries, net sales and net earnings were the highest in the Company's history until that time. However, the results of operations for 1971 were considerably lower. Net sales and net earnings dropped \$267 million and \$117 million, respectively, primarily as the result of a sharp decline in the free world demand for nickel. But these adverse conditions led to the development of marketing and cost-control programs which have since yielded substantial benefits.

The effects of these programs began to be felt in 1972. Higher deliveries of nickel and rolling mill products more than offset a 32 million pound drop in copper deliveries as net sales rose by about \$111 million, an increase of 14 per cent over 1971, and net earnings improved to \$112 million, an increase of \$22 million.

With an improving economy, sales for 1973 reached a new high as prices increased and deliveries approached the record level set in 1970. Substantial inventories built up during 1971 and flexible marketing programs, as well as expanded production, placed the Company in a position to meet this demand. The introduction in North America of nickel pellets and Incomet nickel permitted the Company to be more responsive to customers' needs. The increased level of metal deliveries at improved prices and the continuing benefits from the Company's cost-control program were the principal factors contributing to the substantial improvement in 1973 net earnings.

In 1974, the Company experienced unprecedented worldwide demand for its metals, which it was able to meet with its broad line of products, from drawdown of inventories and expanded production facilities. Metals sales rose to \$1,451 million, as prices continued to improve and deliveries of nickel, copper and rolling mill products reached an all-time high. The higher 1974 consolidated net earnings were primarily attributable to the increased sales, which more than offset the adverse effects of higher unit costs and substantially higher income and mining taxes.

Also in 1974, the Company inaugurated a program to reduce dependence on its traditional business by diversifying into other fields. The Company entered into the packaged power industry with the acquisition of ESB Incorporated for \$234 million, effective as of August 1, 1974. ESB had sales of \$234 million during the five months ended December 31, 1974.

World demand for nickel fell sharply in 1975, even more so than in 1971. The resultant decrease in the Company's nickel deliveries, coupled with a 29 cent a pound decrease in the average price realized on copper deliveries, were primarily responsible for metal sales declining to \$1,198 million in 1975. This decline was moderated by improved prices for nickel and rolling mill products and by a \$26 million contribution to sales from Daniel Doncaster & Sons Limited subsequent to its acquisition effective August 17, 1975. ESB's sales for the year 1975 were \$497 million.

After experiencing higher unit costs in 1971, the Company began to benefit from its cost-control program, and the performance has been good when matched against inflation rates. Increases in total costs in 1972 and 1973 were mainly related to increased deliveries. In 1974 and 1975, rapidly increasing supply, energy and labor costs more than offset continued improvements in operating efficiency. ESB incurred costs of \$186.7 million in the five months subsequent to its acquisition effective August 1, 1974, compared with \$378.1 million in the 12 months of 1975, including \$3.3 million and \$11.7 million, in each of these periods, respectively, for taxes other than income and mining taxes. Doncaster added \$22.7 million to 1975 costs since its acquisition. Brief strikes in the Ontario Division adversely affected costs disproportionately to the time periods involved.

For the five years ended December 31, 1975, 81 per cent of the

Company's aggregate income and mining tax expense related to Canadian operations. From 1971 through 1973, income and mining tax expense was proportionate to the level of earnings except for annual variations in the tax benefits attributable to tax exempt income from new mines, a \$6.7 million reduction in 1971 resulting from a non-recurring adjustment relating to prior years, and a temporary 7 per cent reduction in the Canadian federal income tax rate applicable to portions of 1971 and 1972. However, in 1974, the introduction of higher rates for Ontario mining and Manitoba royalty taxes and the termination of tax exemption on income from new mines, as well as the higher level of earnings, substantially increased income and mining taxes. In 1975, income and mining tax expense decreased primarily as a result of the decline in earnings. Other factors contributing to the lower taxes were the favorable settlement of Canadian tax issues relating to prior periods, the lesser impact of Ontario's graduated income tax structure applicable to the decreased 1975 level of mining income, and the full year's application of the changes in Canadian federal taxes which became effective May 7, 1974. Taking into account Canadian tax changes which became effective January 1, 1976 as a result of legislation already enacted, the Company's effective income and mining tax rate on Canadian income is expected to be somewhat less than 50 per cent in 1976.

Towards the end of the year, the Canadian government introduced an anti-inflation program, effective October 14, 1975 and scheduled to continue until December 31, 1978. The program provides restraints on prices, profits, compensation and dividends. The government also indicated in a press release that, as part of the program, it intended to introduce legislation early in 1976 imposing a levy on export revenues in excess of stated guidelines. Up to 90 per cent of any levy which might be applicable would be refundable, on a dollar-for-dollar basis, for investments in approved projects in Canada. In any event, a minimum of 75 per cent of any gross levy would be refundable three to ten years after the control period. Aggregate dividends declared or paid by the Company during the first compliance period from October 14, 1975 to October 13, 1976 may not exceed the dividends paid during the last fiscal year ended prior to October 14, 1975, which in the Company's case was the year ended December 31, 1974 in which the Company paid dividends of \$1.60 per share. Dividends in subsequent compliance periods are expected to be covered by as yet unissued regulations. While there are a number of general uncertainties concerning the implementation of this program, the Company believes that it was in compliance with the program for the year 1975 in all respects and that it was not subject to a levy on its export revenues. It is not possible at this time to assess the potential impact of the program on the Company's future earnings.

On January 19, 1976, the United States Department of Justice filed a civil antitrust suit against the Company alleging that the acquisition of ESB was in violation of Section 7 of the Clayton Act and asking that the Company be required to divest itself of ESB. In its answer, the Company will deny the violations alleged in the complaint.

The International Nickel Company of Canada, Limited

Directors

(Term expires 1976)

J. Edwin Carter
President

Peter D. Curry
President and Chief Operating Officer, Power Corporation of Canada, Limited,
Montreal (investment and management)

Kenneth A. DeLonge
Senior Vice-President

Albert P. Gagnebin
Former Chairman of the Board

J. Peter Gordon
President and Chief Executive Officer, The Steel Company of Canada,
Limited, Toronto

James H. Goss
Chairman of the Board, The Pantasote Company, Greenwich, Connecticut
(plastic and rubber products)

Allen T. Lambert
Chairman of the Board and Chief Executive Officer, The Toronto-Dominion
Bank, Toronto

John McCreedy
Senior Vice-President

The Rt. Hon. Lord Nelson of Stafford
Chairman of the Board of The General Electric Company Limited, London, England

George T. Richardson
President, James Richardson & Sons, Limited, Winnipeg
(financial, grain and management holding company)

Lucien G. Rolland
President, Rolland Paper Company, Limited, Montreal

William Steven
Senior Vice-President

Ashby McC. Sutherland
Senior Vice-President

(Term expires 1977)

Charles F. Baird
Vice-Chairman of the Board

David W. Barr
Chairman of the Board, Moore Corporation Limited, Toronto (business forms)

Robert W. Bonner, Q.C.
Chairman of the British Columbia Hydro & Power Authority
and a partner in the law firm of Bonner & Fouks, Vancouver

John J. Deutsch, C.C.
Professor of Economics, Queen's University, Kingston, Ontario

Wm. Ward Foshay
Lawyer - Partner in the firm of Sullivan & Cromwell, New York

L. Edward Grubb
Chairman of the Board and Chief Officer

G. Arnold Hart, M.B.E.
Chairman of the Executive Committee of the Board of Directors,
Bank of Montreal, Montreal

Donald G. Willmot
Chairman of the Board, The Molson Companies Limited, Toronto
(brewing, retailing and diversified manufacturing)

Samuel H. Woolley
Former Chairman, The Bank of New York, New York

Executive Committee

L. Edward Grubb, Chairman
David W. Barr
J. Edwin Carter
Wm. Ward Foshay
James H. Goss
G. Arnold Hart, M.B.E.
Allen T. Lambert

Audit Committee

Samuel H. Woolley, Chairman
David W. Barr
J. Peter Gordon
Allen T. Lambert
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Officers

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President

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William Steven
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Louis S. Renzoni

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Regional Vice-President

Harold R. Hiser, Jr.
Treasurer

Ian McDougall
Comptroller

Donald C. McGavin, Q.C.
Secretary

George L. Sutton
Chief Legal Officer

Chief officers of principal subsidiaries and divisions

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President
Exmibal, Guatemala City

Kenneth H. J. Clarke
President
Canadian Marketing Division,
Toronto

Richard Doncaster
Chairman
Daniel Doncaster & Sons Limited,
Sheffield, England

Philip C. Jessup, Jr.
Managing Director
P.T. International Nickel
Indonesia,
Jakarta

Winton K. Newman
President
Manitoba Division,
Thompson

John H. Page
President
The International Nickel
Company, Inc., New York

Donald J. Phillips
Chairman and Managing Director
International Nickel Limited,
London, England

Frederick J. Port
President
ESB Incorporated,
Philadelphia, Pennsylvania

Anthony T. Shadforth
Chairman
Henry Wiggin & Company
Limited, Hereford, England

Robert W. Simmons
President
Huntington Alloys, Inc.,
Huntington, W. Va.

Ronald R. Taylor
President
Ontario Division, Sudbury

The International Nickel Company of Canada,Limited

General Offices: Sudbury, Ontario P0M 1N0

Executive Offices: Toronto-Dominion Centre, Toronto, Ontario M5K 1E3 (416) 362-6311
One New York Plaza, New York, N.Y. 10004, U.S.A. (212) 742-4000

Principal subsidiary companies

The International Nickel Company, Inc.

General Offices:
One New York Plaza, New York, N.Y.10004,U.S.A.

International Nickel Limited

General Offices:
Thames House, Millbank, London, SW1P 4QF,England

Huntington Alloys,Inc.

General Offices:
Huntington, West Virginia 25720, U.S.A.

Henry Wiggin & Company Limited

General Offices:
Holmer Road, Hereford, HR4 9SL, England

Daniel Doncaster & Sons Limited

General Offices:
Birley House, Wadsley Bridge, Sheffield, S6 1ET, England

P.T.International Nickel Indonesia

General Offices:
Jalan Melawai VI/8, Kebayoran Baru, Jakarta, Indonesia

Exploraciones y Explotaciones Mineras Izabal,S.A.

General Offices:
Edificio Valenzuela, 14 Calle 6-12, Zona 1, Guatemala City, Guatemala

ESB Incorporated

General Offices:
5 Penn Center Plaza, Philadelphia, Pennsylvania 19103, U.S.A.

Other subsidiaries include

Canada

Canadian Nickel Company Limited, Toronto
International Sales Limited, Toronto

South America

International Nickel do Brasil Comercial Ltda., Sao Paulo
Mineração Serras do Sul Ltda., Rio de Janeiro

Europe

International Nickel B.V., The Hague
International Nickel Benelux S.A., Brussels
International Nickel Deutschland G.m.b.H., Düsseldorf
International Nickel France S.A., Paris
International Nickel Gesellschaft m.b.H., Vienna
International Nickel Iberica Limited, Madrid
International Nickel Italia S.p.A., Milan
International Nickel Océanie S.A., Paris
International Nickel Svenska AB, Stockholm
Henry Wiggin & Company Gesellschaft m.b.H., Vienna
Nickel Alloys International S.A., Brussels

Asia

International Nickel (India) Private Limited, Bombay
International Nickel Japan Ltd., Tokyo

Australia

International Nickel Australia Limited, Melbourne

Africa

International Nickel S.A. (Proprietary) Limited, Johannesburg

Principal properties,plants, laboratories and products

Mines

Shebandowan, Ontario – Shebandowan
Sudbury, Ontario – Coleman, Copper Cliff North, Copper Cliff South, Crean Hill, Creighton, Frood-Stobie, Garson, Kirkwood, Levack, Levack West, Little Stobie and Victoria
Thompson, Manitoba – Birchtree, Pipe and Thompson

Concentrators

Shebandowan, Ontario
Sudbury, Ontario – Clarabelle, Copper Cliff, Frood-Stobie and Levack
Thompson, Manitoba

Smelters

Sudbury, Ontario
Thompson, Manitoba

Iron ore recovery plant

Sudbury, Ontario – Iron ore and nickel oxide

Matte refining

Sudbury, Ontario – Nickel oxide sinter, Incomet nickel and refined nickel sulphide

Refineries

Port Colborne, Ontario – Nickel metal, foundry additives, semi-refined platinum-group metals and osmium
Thompson, Manitoba – Nickel metal and elemental sulphur
Sudbury, Ontario – Nickel pellets and powders, copper, gold, silver, selenium, tellurium, semi-refined platinum-group metals and nickel sulphate
Clydach, Wales – Nickel pellets and powders, and nickel and cobalt salts and oxides
Acton (London), England – Platinum, palladium, rhodium, ruthenium and iridium

Research laboratories and pilot plants

Sheridan Park, Sudbury and Port Colborne, Ontario
Sterling Forest, New York, and Harbor Island, North Carolina, U.S.A.
Birmingham, England, and Clydach, Wales

Rolling mills

Plants – Huntington, West Virginia, and Burnaugh, Kentucky, U.S.A. ; Hereford, England – Wrought nickel and high-nickel alloys
Research Laboratories – Huntington, West Virginia, U.S.A. ; Hereford, England

Daniel Doncaster

Works – Sheffield, Hull and Dudley, England – Forged products ; Leeds, England and Blaenavon, Wales – Turbine products ; Oldham and Manchester, England – Machined products
Research Centre – Sheffield, England

Counsel

Sullivan & Cromwell
Osler, Hoskin & Harcourt

Auditors

Price Waterhouse & Co.

Transfer agents

Canada Permanent Trust Company, Toronto, Ontario
The Royal Trust Company, Montreal, P.Q.
Canada Permanent Trust Company, Calgary, Alberta
Bankers Trust Company, New York, N.Y.
The Royal Trust Company of Canada, London, England

Registrars

Montreal Trust Company, Toronto, Ontario
Montreal Trust Company, Montreal, P.Q.
Montreal Trust Company, Calgary, Alberta
Morgan Guaranty Trust Company of New York, New York, N.Y.
Lloyds Bank Limited, London, England

